DYNAVAX TECHNOLOGIES CORP
Form 10-Q
November 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission file number: 001-34207

Dynavax Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware	33-0728374
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2929 Seventh Street, Suite 100

Berkeley, CA 94710-2753

(510) 848-5100

(Address, including Zip Code, and telephone number, including area code, of the registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark 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 registration was required to submit and post such files). Yes x 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of October 31, 2014, the registrant had outstanding 262,933,778 shares of common stock.

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DYNAVAX TECHNOLOGIES CORPORATION

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to a number of risks and uncertainties. Forward-looking statements are based on our beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “could”, “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “future,” “intend,” “certain,” and similar expressions intended to identify forward-looking statements. O forward-looking statements include discussions regarding our business and financing strategies, research and development, preclinical and clinical product development efforts, intellectual property rights and ability to commercialize our product candidates, as well as the timing of the clinical development and potential regulatory approval of our products, the effect of GAAP accounting pronouncements, the potential for entry into collaborative arrangements, uncertainty regarding our future operating results and prospects for profitability, anticipated sources of funds as well as our plans, objectives, expectations and intentions. Our actual results may vary materially from those in such forward-looking statements as a result of various factors that are identified in “Item 1A. Risk Factors” and elsewhere in this document. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We assume no obligation to update any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Dynavax Technologies Corporation

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2014 (unaudited)	December 31, 2013 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 19,656	$ 23,122
Marketable securities available-for-sale	110,916	166,254
Accounts receivable	727	1,627
Prepaid expenses and other current assets	3,578	1,375
Total current assets	134,877	192,378
Property and equipment, net	8,129	8,706
Goodwill	2,376	2,579
Restricted cash	642	662
Other assets	872	297
Total assets	$ 146,896	$ 204,622
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,972	$ 1,901
Accrued research and development	6,801	2,402
Other accrued liabilities	5,403	5,764
Deferred revenues	5,644	6,125
Total current liabilities	22,820	16,192
Deferred revenues, net of current portion	855	1,173
Other long-term liabilities	1,645	963
Total liabilities	25,320	18,328
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock: $0.001 par value:		
Authorized: 5,000 shares	-	-
Issued and outstanding: Series B Convertible Preferred Stock — 43 shares at September 30, 2014 and December 31, 2013	-	-
Common stock: $0.001 par value:		
Authorized: 350,000 shares		
Issued and outstanding: 262,934 shares at September 30, 2014 and 262,796 shares at December 31, 2013	263	263
Additional paid-in capital	693,066	688,390
Accumulated other comprehensive loss	(1,106)	(148)

Accumulated deficit	(570,647)	(502,211)
Total stockholders' equity	121,576	186,294
Total liabilities and stockholders' equity	$146,896	$204,622

See accompanying notes.

Dynavax Technologies Corporation

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Collaboration revenue	$1,795	$1,110	$6,199	$3,349
Grant revenue	414	1,700	2,546	3,855
Service and license revenue	-	117	10	1,200
Total revenues	2,209	2,927	8,755	8,404
Operating expenses:				
Research and development	28,072	11,770	64,942	38,739
General and administrative	4,083	5,807	12,325	22,243
Unoccupied facility expense	131	918	386	918
Total operating expenses	32,286	18,495	77,653	61,900
Loss from operations	(30,077)	(15,568)	(68,898)	(53,496)
Other income (expense):				
Interest income	42	37	162	163
Interest expense	-	(24)	-	(83)
Other income (expense)	216	(120)	300	(248)
Net loss	$(29,819)	$(15,675)	$(68,436)	$(53,664)
Basic and diluted net loss per share	$(0.11)	$(0.09)	$(0.26)	$(0.29)
Weighted average number of shares used to compute basic and diluted net loss per share	262,908	183,022	262,883	182,960

Dynavax Technologies Corporation

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	$(29,819)	$(15,675)	$(68,436)	$(53,664)

Other comprehensive income (loss):				
Unrealized (loss) gain on marketable securities available-for-sale	(1)	18	69	(23)
Cumulative foreign currency translation adjustment	(921)	473	(1,027)	299
Total other comprehensive (loss) gain	(922)	491	(958)	276
Total comprehensive loss	$(30,741)	$(15,184)	$(69,394)	$(53,388)

See accompanying notes.

Dynavax Technologies Corporation

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net loss	$(68,436)	$(53,664)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,016	986
(Loss) gain on disposal of property and equipment	(24)	4
Accretion of discounts and amortization of premiums of marketable securities	714	692
Unoccupied facility expense	386	918
Stock-based compensation expense	4,532	10,847
Changes in operating assets and liabilities:		
Accounts receivable	900	(1,154)
Prepaid expenses and other current assets	(2,203)	932
Restricted cash and other assets	(575)	166
Accounts payable	3,284	(877)
Accrued liabilities and other long term liabilities	4,334	(2,489)
Deferred revenues	(799)	(3,191)
Net cash used in operating activities	(56,871)	(46,830)
Investing activities		
Purchases of marketable securities	(44,807)	(48,573)
Proceeds from maturities of marketable securities	99,500	101,105
Purchases of property and equipment, net of proceeds from asset disposals	(1,207)	(1,316)
Net cash provided by investing activities	53,486	51,216
Financing activities		
Payment of issuance costs	-	(143)
Proceeds from exercise of stock options and restricted stock awards	13	30
Proceeds from employee stock purchase plan	130	224
Net cash provided by financing activities	143	111
Effect of exchange rate changes on cash and cash equivalents	(224)	95
Net (decrease) increase in cash and cash equivalents	(3,466)	4,592
Cash and cash equivalents at beginning of period	23,122	7,599
Cash and cash equivalents at end of period	$19,656	$12,191
Supplemental disclosure of cash flow information		
Non-cash investing and financing activities:		
Disposal of fully depreciated property and equipment	$675	$8
Net change in unrealized gain (loss) on marketable securities	$69	$(23)

See accompanying notes.

Dynavax Technologies Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Dynavax Technologies Corporation ("we," "our," "us," "Dynavax" or the "Company"), a clinical-stage biopharmaceutical company, develops products to prevent and treat infectious and inflammatory diseases and cancer based on Toll-like Receptor ("TLR") biology and its ability to modulate the innate immune system. Our lead product candidate is HEPLISAV-B™, an investigational adult hepatitis B vaccine in Phase 3 clinical development.

In addition to HEPLISAV-B, we are conducting clinical and preclinical programs that utilize our expertise in TLR biology. Our product candidates include both TLR agonists and TLR inhibitors. Our clinical stage programs include our cancer immunotherapy program, our autoimmune program partnered with GlaxoSmithKline ("GSK") and our asthma therapeutic program partnered with AstraZeneca AB ("AstraZeneca"). We also are advancing preclinical development programs in adjuvant technology and TLR 7, 8 and 9 inhibition. We compete with pharmaceutical companies, biotechnology companies, academic institutions and research organizations in developing therapies to prevent or treat infectious and inflammatory diseases and cancer. We were incorporated in California in August 1996 under the name Double Helix Corporation, and we changed our name to Dynavax Technologies Corporation in September 1996. We reincorporated in Delaware in 2000.

Basis of Presentation

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. In our opinion, these unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary to present fairly our financial position and the results of our operations and cash flows. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. Interim-period results are not necessarily indicative of results of operations or cash flows to be expected for a full-year period or any other interim-period. The condensed consolidated balance sheet at December 31, 2013, has been derived from audited financial statements at that date, but excludes disclosures required by GAAP for complete financial statements.

The unaudited condensed consolidated financial statements and these notes should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission (the "SEC").

The unaudited condensed consolidated financial statements include the accounts of Dynavax and our wholly-owned subsidiaries, Rhein Biotech GmbH ("Rhein" or "Dynavax Europe") and Dynavax International, B.V. All significant intercompany accounts and transactions, among consolidated entities, have been eliminated. We operate in one business segment, which is dedicated to the discovery and development of biopharmaceutical products.

Liquidity and Financial Condition

We have incurred significant operating losses and negative cash flows from operations since our inception. As of September 30, 2014, we had cash, cash equivalents and marketable securities of $130.6 million. We currently estimate

that we have sufficient cash resources to meet our anticipated cash needs through at least the next 12 months based on cash, cash equivalents and marketable securities on hand as of September 30, 2014 and anticipated revenues and funding from existing collaboration agreements.

We expect to continue to spend substantial funds in connection with the development and manufacturing of our product candidates, particularly HEPLISAV-B, human clinical trials for our product candidates and additional applications and advancement of our technology. In order to continue these activities, we may need to raise additional funds. This may occur through strategic collaboration and licensing arrangements and/or future public or private debt and equity financings. Sufficient additional funding may not be available on acceptable terms, or at all. If adequate funds are not available in the future, we may need to delay, reduce the scope of or put on hold the HEPLISAV-B program or our other development programs while we seek strategic alternatives.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make informed estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ materially from these estimates and assumptions.

Summary of Significant Accounting Policies

There have been no significant changes in our significant accounting policies during the nine months ended September 30, 2014, as compared with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Revenue Recognition

Our revenues consist of amounts earned from collaborations, grants and fees from services and licenses. We enter into license and manufacturing agreements and collaborative research and development arrangements with pharmaceutical and biotechnology partners that may involve multiple deliverables. Our arrangements may include one or more of the following elements: upfront license payments, cost reimbursement for the performance of research and development activities, milestone payments, other contingent payments, contract manufacturing service fees, royalties and license fees. Each deliverable in the arrangement is evaluated to determine whether it meets the criteria to be accounted for as a separate unit of accounting or whether it should be combined with other deliverables. In order to account for the multiple-element arrangements, the Company identifies the deliverables included within the arrangement and evaluates which deliverables represent separate units of accounting. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. We recognize revenue when there is persuasive evidence that an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

Non-refundable upfront fees received for license and collaborative agreements entered into prior to January 1, 2011 and other payments under collaboration agreements where we have continuing performance obligations related to the payments are deferred and recognized over our expected performance period. Revenue is recognized on a ratable basis, unless we determine that another method is more appropriate, through the date at which our performance obligations are completed. Management makes its best estimate of the period over which we expect to fulfill our performance obligations, which may include clinical development activities. Given the uncertainties of research and development collaborations, significant judgment is required to determine the duration of the performance period. We recognize cost reimbursement revenue under collaborative agreements as the related research and development costs are incurred, as provided for under the terms of these agreements.

Contingent consideration received for the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved. A milestone is defined as an event having all of the following characteristics: (i) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, (ii) the event can only be achieved based in whole or in part on either the entity’s performance or a specific outcome resulting from the entity’s performance and (iii) if achieved, the event would result in additional payments being due to the entity.

Our license and collaboration agreements with our partners provide for payments to be paid to us upon the achievement of development milestones. Given the challenges inherent in developing biologic products, there is substantial uncertainty whether any such milestones will be achieved at the time we entered into these agreements. In addition, we evaluate whether the development milestones meet the criteria to be considered substantive. The conditions include: (i) the development work is contingent on either of the following: (a) the vendor’s performance to achieve the milestone or (b) the enhancement of the value of the deliverable item or items as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone; (ii) it relates solely to past performance and (iii) it is reasonable relative to all the deliverable and payment terms within the arrangement. As a result of our analysis, we consider our development milestones to be substantive and, accordingly, we expect to recognize as revenue future payments received from such milestones as we achieve each milestone.

Milestone payments that are contingent upon the achievement of substantive at-risk performance criteria are recognized in full upon achievement of those milestone events in accordance with the terms of the agreement and assuming all other revenue recognition criteria have been met. All revenue recognized to date under our collaborative agreements has been nonrefundable.

Our license and collaboration agreements with certain partners also provide for contingent payments to be paid to us based solely upon the performance of our partner. For such contingent payments we expect to recognize the payments as revenue upon receipt, provided that collection is reasonably assured and the other revenue recognition criteria have been satisfied.

Revenues from manufacturing services are recognized upon meeting the criteria for substantial performance and acceptance by the customer.

Revenue from royalty payments is contingent on future sales activities by our licensees. As a result, we recognize royalty revenue when all revenue recognition criteria have been satisfied.

Revenue from government and private agency grants is recognized as the related research expenses are incurred and to the extent that funding is approved. Additionally, we recognize revenue based on the facilities and administrative cost rate reimbursable per the terms of the grant awards.

Research and Development Expenses and Accruals

Research and development expenses include personnel and facility-related expenses, outside contracted services including clinical trial costs, manufacturing and process development costs, research costs and other consulting services and non-cash stock-based compensation. Research and development costs are expensed as incurred. Amounts due under such arrangements may be either fixed fee or fee for service, and may include upfront payments, monthly payments and payments upon the completion of milestones or receipt of deliverables. Non-refundable advance payments under agreements are capitalized and expensed as the related goods are delivered or services are performed.

We contract with third parties to perform various clinical trial activities in the on-going development of potential products. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows to our vendors. Payments under the contracts depend on factors such as the achievement of certain events, successful enrollment of patients, and completion of portions of the clinical trial or similar conditions. Our accrual for clinical trials is based on estimates of the services received and efforts expended pursuant to contracts with clinical trial centers and clinical research organizations. We may terminate these contracts upon written notice and we are generally only liable for actual effort expended by the organizations to the date of termination, although in certain instances we may be further responsible for termination fees and penalties. The Company makes estimates of its accrued expenses as of each balance sheet date based on the facts and circumstances known to the Company at that time. There have been no material adjustments to the Company’s prior period accrued estimates for clinical trial activities through September 30, 2014.

Recent Accounting Pronouncements

Accounting Standards Update 2014-09

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition — Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. The Company is currently evaluating the impact of the provisions of ASC 606. This standard is effective for public entities for annual and interim periods beginning after December 31, 2016.

2. Fair Value Measurements

The Company 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The accounting standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, therefore requiring an entity to develop its own assumptions.

The carrying amounts of cash equivalents, accounts receivable, accounts payable and accrued liabilities are considered reasonable estimates of their respective fair value because of their short-term nature.

Recurring Fair Value Measurements

The following table represents the fair value hierarchy for our financial assets (cash equivalents and marketable securities) measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
September 30, 2014				
Money market funds	$17,973	$-	$ -	$17,973
U.S. government agency securities	-	110,916	-	110,916
Total	$17,973	$110,916	$ -	$128,889

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Money market funds	$20,013	$-	$ -	$20,013
U.S. government agency securities	-	167,597	-	167,597
Total	$20,013	$167,597	$ -	$187,610

Money market funds are highly liquid investments and are actively traded. The pricing information on these investment instruments is readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

U.S. Government agency securities are measured at fair value using Level 2 inputs. We review trading activity and pricing for these investments as of each measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2014.

3. Cash, cash equivalents and marketable securities

The following is a summary of cash, cash equivalents and marketable securities available-for-sale as of September 30, 2014 and December 31, 2013 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
September 30, 2014				
Cash and cash equivalents:				
Cash	$1,683	$ -	$ -	$1,683
Money market funds	17,973	-	-	17,973
Total cash and cash equivalents	19,656	-	-	19,656
Marketable securities available-for-sale:				
U.S. government agency securities	110,878	44	(6)	110,916
Total marketable securities available-for-sale	110,878	44	(6)	110,916
Total cash, cash equivalents and marketable securities	$130,534	$ 44	$ (6)	$130,572
December 31, 2013				
Cash and cash equivalents:				
Cash	$1,766	$ -	$ -	$1,766
Money market funds	20,013	-	-	20,013
U.S. government agency securities	1,343	-	-	1,343
Total cash and cash equivalents	23,122	-	-	23,122
Marketable securities available-for-sale:				
U.S. government agency securities	166,285	16	(47)	166,254
Total marketable securities available-for-sale	166,285	16	(47)	166,254

Total cash, cash equivalents and marketable securities	$189,407	$ 16	$ (47)	$189,376

The maturities of our marketable securities available-for-sale are as follows (in thousands):

	September 30, 2014	
	Amortized Cost	Estimated Fair Value
Mature in one year or less	$96,598	$96,635
Mature after one year through two years	14,280	14,281
	$110,878	$110,916

We have classified our entire investment portfolio as available-for-sale and available for use in current operations and accordingly have classified all investments as short-term. Available-for-sale securities are carried at fair value based on inputs that are observable, either directly or indirectly, such as quoted market prices for similar securities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the securities, with unrealized gains and losses included in accumulated other comprehensive income (loss) in stockholders' equity. Realized gains and losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are included in interest income or expense. The cost of securities sold is based on the specific identification method. Management assesses whether declines in the fair value of investment securities are other than temporary. In determining whether a decline is other than temporary, management considers the following factors:

- Whether the investment has been in a continuous realized loss position for over 12 months;
- the duration to maturity of our investments;
- our intention and ability to hold the investments to maturity and if it is not more likely than not that we will be required to sell the investment before recovery of the amortized cost bases;
- the credit rating, financial condition and near-term prospects of the issuer; and
- the type of investments made.

To date, there have been no declines in fair value that have been identified as other than temporary.

4. Commitments and Contingencies

We lease our facilities in Berkeley, California ("Berkeley Lease") and Düsseldorf, Germany ("Düsseldorf Lease") under operating leases that expire in June 2018 and March 2023, respectively. The Berkeley Lease provides for periods of escalating rent. The total cash payments over the life of the lease are divided by the total number of months in the lease period and the average rent is charged to expense each month during the lease period. We entered into sublease agreements under the Düsseldorf Lease for a certain portion of the leased space. The sublease income is offset against our rent expense.

In September 2013, we decided not to occupy a portion of our facility in Berkeley, California. As a result, we recorded an estimated unoccupied facility expense of $0.9 million in the third quarter of 2013, representing the present value of the rent payments and other costs associated with the lease, net of estimated sublease income, for the remaining life of the operating lease. In September 2014, we reassessed our timing and ability to sublet a portion of our facility and recorded an additional unoccupied facility expense of $0.1 million for the three months ended September 30, 2014, in addition to $0.2 million and $0.1 million of unoccupied facilities expense recorded in the three months ended June 30, 2014 and March 31, 2014, respectively. The unoccupied facility expense was measured by taking the present value of the rent payments and other costs associated with the lease, net of estimated sublease income, for the remaining life of the operating lease. This fair value measurement was based on significant inputs not observed in the market and thus represents a Level 3 measurement.

Total net rent expense related to our operating leases for both three month periods ended September 30, 2014 and 2013, was $0.4 million and $0.6 million, respectively. Total net rent expense related to our operating leases for both nine month periods ended September 30, 2014 and 2013, was $1.3 million and $1.4 million, respectively. Deferred rent was $0.6 million as of both September 30, 2014 and December 31, 2013.

Future minimum payments under the non-cancelable portion of our operating leases at September 30, 2014, excluding payments from sublease agreements, are as follows (in thousands):

Years ending December 31,	
2014 (remaining)	$554
2015	2,236
2016	2,287
2017	2,336
2018	1,305
Thereafter	2,303
Total	$11,021

In addition to the non-cancelable commitments included above, we have entered into contractual arrangements that obligate us to make payments to the contractual counterparties upon the occurrence of future events. In addition, in the normal course of operations, we have entered into license and other agreements and intend to continue to seek additional rights relating to compounds or technologies in connection with our discovery, manufacturing and development programs. Under the terms of the agreements, we

may be required to pay future up-front fees, milestones, royalties on net sales of products originating from the licensed technologies, if any, or other payments contingent upon the occurrence of future events that cannot reasonably be estimated.

We rely on research institutions, contract research organizations, clinical investigators as well as clinical and commercial material manufacturers of our product candidates. As of September 30, 2014, under the terms of our agreements, including certain agreements relating to the April 2014 initiation of the Phase 3 trial of HEPLISAV-B, we are obligated to make future payments as services are provided of approximately $27.7 million through 2016. These agreements are terminable by us upon written notice. Generally, we are liable only for actual effort expended by the organizations at any point in time during the contract through the notice period.

Under the terms of our exclusive license agreements with The Regents of the University of California, as amended, for certain technology and related patent rights and materials, we pay annual license or maintenance fees and will be required to pay milestones and low single-digit royalties on net sales, if any, of certain products originating from the licensed technologies.

5. Collaborative Research and Development Agreements

GlaxoSmithKline

In December 2008, we entered into a worldwide strategic alliance with GSK to discover, develop and commercialize TLR inhibitors. Under the terms of the arrangement, we agreed to conduct research and early clinical development of product candidates and GSK received an option to license those candidates.

In August 2014 we announced results of a Phase 1b/2a clinical trial of the product candidate DV1179 in systemic lupus erythematosus (“SLE”) patients. DV1179 did not meet the primary or secondary pharmacodynamic endpoints of the study. GSK is reviewing the data package and will determine whether to exercise its option to license DV1179.

If GSK exercises its option, GSK would carry out further development and commercialization of the corresponding products and we would be eligible to receive an option exercise payment and additional payments based on GSK’s achievement of certain development, regulatory and commercial objectives.

We received an initial payment of $10 million in 2008. The deliverables under this arrangement did not have stand-alone value and so did not qualify as separate units of accounting. In 2011, we earned and recognized $12 million in substantive development milestone payments related to the initiation of Phase 1 and proof-of-mechanism clinical trials of DV1179 in systemic lupus erythematosus patients. In 2011, we earned and recognized $3 million in substantive development milestone payments related to the initiation of development of the TLR8 program.

Revenue from the initial payment from GSK was deferred and is being recognized over the expected period of performance under the agreement, initially estimated to be seven years. In the fourth quarter of 2013 we reevaluated and revised the expected period of performance under the agreement from seven years to six years resulting in the recognition of $0.3 million of additional revenue in each of the first three quarters of 2014.

The following table summarizes the revenues recognized under our agreement with GSK, included as collaboration revenue in our statement of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Initial payment	$631	$357	$1,893	$1,071
Total	$631	$357	$1,893	$1,071

As of September 30, 2014 and December 31, 2013, deferred revenue relating to the initial payment was $0.6 million and $2.5 million, respectively.

Absent early termination, the agreement will expire when all of GSK’s payment obligations expire. Either party may terminate the agreement early upon written notice if the other party commits an uncured material breach of the agreement. Either party may terminate the agreement in the event of insolvency of the other party. GSK also has the option to terminate the agreement without cause upon prior written notice within a specified window of time dependent upon the stage of clinical development of the programs.

AstraZeneca

In September 2006, we entered into a three year research collaboration and license agreement with AstraZeneca for the discovery and development of TLR9 agonist-based therapies for the treatment of asthma and chronic obstructive pulmonary disease.

In October 2011, we amended our agreement with AstraZeneca to provide that we will conduct initial clinical development of AZD1419 and AstraZeneca agreed to fund all program expenses to cover the cost of development activities through Phase 2a. Under the terms of the amended agreement, we received an initial payment of $3 million in 2011 to begin the clinical development program. In the first quarter of 2012, we received a $2.6 million payment to advance AZD1419 into preclinical toxicology studies, which were completed in the third quarter of 2012. We and AstraZeneca agreed to advance AZD1419 towards a Phase 1 clinical trial, which resulted in a development funding payment of $6 million received in the fourth quarter of 2012.

In January 2014, we again amended our agreement with AstraZeneca for the clinical development of AZD1419. Under the terms of this amendment, responsibility for further conduct of clinical trials will be transferred from Dynavax to AstraZeneca upon completion of the Phase 1 trial. In the first quarter of 2014, we received a $5.4 million payment that was due upon execution of this amended agreement.

In August 2014 we announced the results of a Phase 1 study in which AZD1419 or placebo was delivered by inhalation to 45 healthy volunteers. The primary study objective was to assess the safety of ascending doses of AZD1419 administered weekly for up to 4 weeks. Doses up to 15.4 mg/week were well tolerated and no serious adverse events were observed in treated subjects. Secondary endpoints assessing pharmacodynamics were met, with dose-dependent induction of interferon-regulated genes in sputum and blood cells. Based on these results, Dynavax and AstraZeneca are evaluating protocols for a clinical trial in patients with asthma.

Under the terms of this agreement, as amended, we are eligible to receive additional milestone payments, which we have determined to be substantive milestones, of up to approximately $100 million, based on the achievement of certain development and regulatory objectives. Additionally, upon commercialization, we are eligible to receive tiered royalties ranging from the mid to high single-digits based on product sales of any products originating from the collaboration. We have the option to co-promote in the United States products arising from the collaboration, if any. AstraZeneca has the right to sublicense its rights upon our prior consent.

Revenue from the initial payment received in 2006 was deferred and is being recognized over the expected period of performance under the agreement, which is approximately 50 months. Revenue from the $5.4 million payment received in the first quarter of 2014 was deferred and is being recognized over the expected remaining period of performance under the agreement, which is approximately 24 months. Revenue from the development funding payments is being recognized as the development work is performed.

The following table summarizes the revenues earned under our agreement with AstraZeneca, included as collaboration revenue in our statement of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Initial payment	$180	$180	$540	$540

Subsequent payment	675	-	2,025	-
Performance of research activities	309	573	1,741	1,738
Total	$1,164	$753	$4,306	$2,278

As of September 30, 2014 and December 31, 2013, total deferred revenue from the initial payment, subsequent payment and development funding payments was $5.9 million and $4.8 million, respectively.

Absent early termination, the agreement will expire when all of AstraZeneca's payment obligations expire. AstraZeneca has the right to terminate the agreement at any time upon prior written notice and either party may terminate the agreement early upon written notice if the other party commits an uncured material breach of the agreement.

National Institutes of Health ("NIH") and Other Funding

We have been awarded various grants from the NIH and the NIH's National Institute of Allergy and Infectious Disease ("NIAID") in order to fund research. The awards are related to specific research objectives and we earn revenue as the related research

expenses are incurred. We have earned revenue during the three and nine month periods ended September 30, 2014 and 2013 from the following awards:

- August 2014, NIH awarded us $0.2 million to fund research in developing a transgenic mouse model to study human TLR9 role in disease.
- September 2013, NIH awarded us $0.2 million to fund research in developing TLR antagonists for therapy of hepatic fibrosis and cirrhosis.
- June 2012, NIH awarded us $0.6 million to fund research in screening for inhibitors of TLR8 for treatment of autoimmune diseases.
- May 2012, NIH awarded us $0.4 million to fund development of TLR8 inhibitors for treatment of rheumatoid arthritis.
- July 2011, NIH awarded us $0.6 million to fund research in preclinical models of skin autoimmune inflammation.
- August 2010, NIAID awarded us a grant to take a systems biology approach to study the differences between individuals who do or do not respond to vaccination against the hepatitis B virus. This study will be one of several projects conducted under a grant to the Baylor Institute of Immunology Research in Dallas as part of the Human Immune Phenotyping Centers program. We have been awarded a total of $1.4 million under this grant.
- September 2008, NIAID awarded us a five-year $17 million contract to develop our ISS technology using TLR9 agonists as vaccine adjuvants. The contract supports adjuvant development for anthrax as well as other disease models.

The following table summarizes the revenues recognized under the various arrangements with the NIH and NIAID, included as grant revenue in our statement of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NIAID contracts	$255	$1,465	$2,094	$3,125
All other NIH contracts	159	235	452	730
Total grant revenue	$414	$1,700	$2,546	$3,855

6. Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period and giving effect to all potentially dilutive common shares using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by us, outstanding options, stock awards, warrants and Series B Convertible Preferred Stock are considered to be potentially dilutive common shares and are only included in the calculation of diluted net loss per share when their effect is dilutive. Outstanding warrants, stock options, Series B Convertible Preferred Stock and stock awards totaling approximately 75,000,000 and 31,100,000 shares of common stock as of September 30, 2014 and 2013, respectively, were excluded from the calculation of diluted net loss per share for the three and nine months ended September 30, 2014 and 2013, because the effect of their inclusion would have been anti-dilutive. For periods in which the Company has a net loss and no instruments are determined to be dilutive, such as the nine months ended September 30, 2014, basic and diluted loss per share are the same.

7. Stockholders' Equity

Option activity under our stock-based compensation plans during the nine months ended September 30, 2014 was as follows (in thousands except per share amounts):

	Shares Underlying Outstanding Options (in thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2013	15,765	$ 3.17		
Options granted	5,673	1.68		
Options exercised	(25)	0.54		
Options cancelled:				
Options forfeited (unvested)	(582)	2.69		
Options cancelled (vested)	(2,012)	2.90		
Balance at September 30, 2014	18,819	2.77	6.22	$ 444
Vested and expected to vest at September 30, 2014	18,819	2.77	6.22	$ 444
Exercisable at September 30, 2014	10,553	3.34	4.06	$ 421

Restricted stock unit activity under our stock-based compensation plans during the nine months ended September 30, 2014 was as follows (in thousands except per share amounts):

	Number of Shares (In thousands)	Weighted-Average Grant-Date Fair Value
Non-vested as of December 31, 2013	1,275	$ 3.93
Granted	1,555	$ 1.79
Vested	-	$ -
Forfeited or expired	(1,040)	$ 4.20
Non-vested as of September 30, 2014	1,790	$ 1.91

The aggregate intrinsic value of the restricted stock units outstanding as of September 30, 2014, based on our stock price on that date, was $2.6 million.

As of September 30, 2014, approximately 800,000 shares underlying stock options and restricted stock units awards with performance-based vesting criteria were outstanding.

Under our stock-based compensation plans, option awards generally vest over a four-year period contingent upon continuous service and expire ten years from the date of grant (or earlier upon termination of continuous service). The fair value-based measurement of each option is estimated on the date of grant using the Black-Scholes option valuation model.

The fair value-based measurements and weighted-average assumptions used in the calculations of these measurements are as follows:

	Stock Options Three Months Ended September 30,		Stock Options Nine Months Ended September 30,		Employee Stock Purchase Plan Nine Months Ended September 30,	
	2014	2013	2014	2013	2014	2013
Weighted-average fair value	$1.01	$1.15	$1.52	$2.43	$0.74	$0.93