DYNAVAX TECHNOLOGIES CORP
Form 10-Q
May 07, 2015

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 March 31, 2015

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 April 30, 2015, the registrant had outstanding 29,303,239 shares of common stock.

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DYNAVAX TECHNOLOGIES CORPORATION

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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. All statements that are not historical facts are forward-looking statements, including statements about our ability to successfully develop and achieve regulatory approval for HEPLISAV-B™, our business and collaboration strategy, our intellectual property position, our product development efforts, our ability to commercialize our product candidates, our ability to manufacture commercial supply and meet regulatory requirements, the timing of the introduction of our products, uncertainty regarding our capital needs and future operating results and profitability, anticipated sources of funds as well as our plans, objectives, expectations and intentions. These statements appear throughout this Quarterly Report on Form 10-Q and can be identified by the use of forward-looking language such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” or the negative of these terms or other variations or comparable terminology.

Actual results may vary materially from those in our forward-looking statements as a result of various factors that are identified in “Item 1A—Risk Factors” and “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this document. No assurance can be given that the risk factors described in this Quarterly Report on Form 10-Q are all of the factors that could cause actual results to vary materially from the forward-looking statements. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Readers should not place undue reliance on these forward-looking statements and are cautioned that any such forward-looking statements are not guarantees of future performance. We assume no obligation to update any forward-looking statements.

This Quarterly Report on Form 10-Q includes trademarks and registered trademarks of Dynavax Technologies Corporation. Products or service names of other companies mentioned in this Quarterly Report on Form 10-Q may be trademarks or registered trademarks of their respective owners.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Dynavax Technologies Corporation

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	March 31, 2015 (unaudited)	December 31, 2014 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 14,713	$ 49,511
Marketable securities available-for-sale	82,881	73,141
Accounts receivable	909	727
Prepaid expenses and other current assets	3,478	4,058
Total current assets	101,981	127,437
Property and equipment, net	7,528	7,924
Goodwill	2,032	2,277
Restricted cash	608	632
Other assets	20	20
Total assets	$ 112,169	$ 138,290
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,272	$ 1,159
Accrued research and development	7,346	6,938
Accrued liabilities	3,593	6,317
Deferred revenues	5,694	5,865
Long-term debt, current portion	594	-
Total current liabilities	20,499	20,279
Deferred revenues, net of current portion	6,599	6,900
Long-term debt	8,913	9,559
Other long-term liabilities	1,085	1,070
Total liabilities	37,096	37,808
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 — 17 shares at March 31, 2015 and 43 at December 31, 2014	-	-
Common stock: $0.001 par value; 69,500 shares authorized at March 31, 2015 and December 31, 2014; 28,926 and 26,307 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	29	26
Additional paid-in capital	697,149	695,058

Accumulated other comprehensive loss	(2,955)	(1,669)
Accumulated deficit	(619,150)	(592,933)
Total stockholders' equity	75,073	100,482
Total liabilities and stockholders' equity	$112,169	$138,290

See accompanying notes.

Dynavax Technologies Corporation

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Collaboration revenue	$471	$2,373
Grant revenue	148	1,125
Service and license revenue	8	-
Total revenues	627	3,498
Operating expenses:		
Research and development	22,220	13,231
General and administrative	4,859	4,157
Unoccupied facility expense	-	77
Total operating expenses	27,079	17,465
Loss from operations	(26,452)	(13,967)
Other income (expense):		
Interest income	27	65
Interest expense	(247)	-
Other income, net	455	62
Net loss	$(26,217)	$(13,840)
Basic and diluted net loss per share	$(0.97)	$(0.53)
Weighted average number of shares used to compute basic and diluted net loss per share	27,065	26,283

Dynavax Technologies Corporation

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net loss	$(26,217)	$(13,840)
Other comprehensive (loss) income:		
Unrealized gain on marketable securities available-for-sale	8	69

Cumulative foreign currency translation adjustments	(1,294)	(9)
Total other comprehensive (loss) gain	(1,286)	60
Total comprehensive loss	$(27,503)	$(13,780)

See accompanying notes.

Dynavax Technologies Corporation

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Operating activities		
Net loss	$ (26,217)	$ (13,840)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	335	339
Gain on disposal of property and equipment	-	(20)
Accretion of discounts and amortization of premiums of marketable securities	171	264
Loss on lease	-	77
Accretion of debt discount related to debt financing	(51)	-
Accretion of end of term payment related to debt financing	57	-
Stock compensation expense	1,954	1,270
Changes in operating assets and liabilities:		
Accounts receivable	(182)	(103)
Prepaid expenses and other current assets	580	(948)
Restricted cash and other assets	-	266
Accounts payable	2,043	154
Accrued liabilities and other long term liabilities	(2,357)	(1,671)
Deferred revenues	(472)	3,036
Net cash used in operating activities	(24,139)	(11,176)

Investing activities		
Purchases of marketable securities	(18,654)	(13,819)
Proceeds from maturities of marketable securities	8,750	28,949
Purchases of property and equipment, net	(618)	(398)
Net cash (used in) provided by investing activities	(10,522)	14,732
Financing activities		
Proceeds from exercise of stock options and restricted stock awards	10	-
Proceeds from exercise of warrants	26	-
Proceeds from Employee Stock Purchase Plan	103	69
Net cash provided by financing activities	139	69
Effect of exchange rate changes on cash and cash equivalents	(276)	3
Net (decrease) increase in cash and cash equivalents	(34,798)	3,628
Cash and cash equivalents at beginning of period	49,511	23,122
Cash and cash equivalents at end of period	$ 14,713	$ 26,750
Supplemental disclosure of cash flow information		
Non-cash investing and financing activities:		
Cash paid during the year for interest	$ 184	$ -
Disposal of fully depreciated property and equipment	$ 4	$ 274
Net change in unrealized gain on marketable securities	$ 8	$ 69

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") is a clinical-stage biopharmaceutical company that uses toll-like receptor ("TLR") biology to discover and develop novel vaccines and therapeutics. Our development programs are organized under our three areas of focus: vaccine adjuvants, cancer immunotherapy, and autoimmune and inflammatory diseases. 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 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, 2014, 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, 2014, 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 and Dynavax International, B.V. Dynavax International, B.V. was dissolved in January 2015. All significant intercompany accounts and transactions, among consolidated entities, have been eliminated. We operate in one business segment: 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 March 31, 2015, we had cash, cash equivalents and marketable securities of $97.6 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 March 31, 2015 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 could differ materially from these estimates.

Reverse Stock Split

All references to numbers of shares of our common stock and per-share information in the accompanying financial statements have been adjusted retroactively to reflect the Company’s ten-for-one reverse stock split effected on November 7, 2014. The par value was not adjusted as a result of the reverse stock split.

Summary of Significant Accounting Policies

There have been no significant changes in our significant accounting policies during the three months ended March 31, 2015, as compared with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

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 and other payments under collaboration agreements where we have continuing performance obligations related to the payments are deferred and recognized over our estimated 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 March 31, 2015.

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. On April 1, 2015, the FASB proposed deferring the effective date by one year to December 15, 2017 for annual periods beginning after that date. The FASB also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is currently evaluating the impact of the provisions of ASC 606 on its financial statements.

Accounting Standards Update 2014-15

In August 2014, the FASB issued guidance codified in ASC 205, Presentation of Financial Statements — Going Concern. Accounting Standards Update 2014-15 requires an entity’s management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern and if those conditions exist, to make the required disclosures. The standard is effective for annual periods ending after December 15, 2016, and interim periods therein. The Company does not expect that the adoption of this standard will have a significant impact on its financial statements.

2. Fair Value Measurements

The Company measures 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 valuation techniques and 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. The carrying amount of our long-term debt is considered a reasonable estimate of its respective fair value as it is amortized over its life using the effective interest rate.

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 as of March 31, 2015 and December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
March 31, 2015				
Money market funds	$12,568	$-	$ -	$12,568
U.S. government agency securities	-	82,881	-	82,881
Total	$12,568	$82,881	$ -	$95,449

	Level 1	Level 2	Level 3	Total
December 31, 2014				
Money market funds	$46,989	$-	$ -	$46,989
U.S. government agency securities	-	73,141	-	73,141
Total	$46,989	$73,141	$ -	$120,130

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 three months ended March 31, 2015 or December 31, 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 March 31, 2015 and December 31, 2014 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
March 31, 2015				
Cash and cash equivalents:				
Cash	$2,145	$ -	$ -	$2,145

Money market funds	12,568	-	-	12,568
Total cash and cash equivalents	14,713	-	-	14,713
Marketable securities available-for-sale:				
U.S. government agency securities	82,872	12	(3)	82,881
Total marketable securities available-for-sale	82,872	12	(3)	82,881
Total cash, cash equivalents and marketable securities	$97,585	$ 12	$ (3)	$97,594
December 31, 2014				
Cash and cash equivalents:				
Cash	$2,522	$ -	$ -	$2,522
Money market funds	46,989	-	-	46,989
Total cash and cash equivalents	49,511	-	-	49,511
Marketable securities available-for-sale:				
U.S. government agency securities	73,140	11	(10)	73,141
Total marketable securities available-for-sale	73,140	11	(10)	73,141
Total cash, cash equivalents and marketable securities	$122,651	$ 11	$ (10)	$122,652

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

	March 31, 2015	
	Amortized Cost	Estimated Fair Value
Mature in one year or less	$82,872	$82,881
Mature after one year through two years	-	-
	$82,872	$82,881

All of our investments are classified as short-term and available-for-sale, as we may not hold our investments until maturity. 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.

During 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 during 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. During the first three quarters of 2014, we reassessed our timing and ability to sublet a portion of our facility and recorded a total unoccupied facility expense of $0.4 million for the year ended December 31, 2014. In December 2014, we decided to utilize the unoccupied portion of the facility and began to recognize rent expense under the terms noted in the Berkeley Lease.

Total net rent expense related to our operating leases for both three month periods ended March 31, 2015 and 2014, was $0.5 million and $0.4 million, respectively. Deferred rent was $0.5 million and $0.6 million as of March 31, 2015 and December 31, 2014, respectively.

Future minimum payments under the non-cancelable portion of our operating leases at March 31, 2015, excluding payments from sublease agreements, are as follows (in thousands):

Years ending December 31,	
2015 (remaining)	$1,623
2016	2,209
2017	2,258
2018	1,226
2019	463
Thereafter	1,506
Total	$9,285

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 and 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 March 31, 2015, under the terms of our agreements, including certain agreements relating to the ongoing Phase 3 trial of HEPLISAV-B, we are obligated to make future payments as services are provided of approximately $16.4 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.

From time to time, we are involved in claims, suits, and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, commercial claims, and other matters. Such claims, suits, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management resources, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in substantial monetary damage awards, fines and penalties or orders requiring a change in our business practices, which could in the future materially and adversely affect our financial position, results of operations, or cash flows in a particular period.

5. Collaborative Research and Development Agreements

AstraZeneca

In September 2006, we entered into a 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. 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 amended our agreement with AstraZeneca for the clinical development of AZD1419 whereby responsibility for conducting clinical trials was 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 amendment.

The agreement with AstraZeneca has been amended several times, including most recently, in December 2014. Under the terms of this amendment, AstraZeneca will fully fund and Dynavax will conduct a Phase 2a safety and efficacy trial of AZD1419 in patients with asthma. In the fourth quarter of 2014, we received an $8.0 million payment due upon execution of this amendment, to be applied towards research and development expenses incurred in conducting the Phase 2a study.

Under the terms of this agreement, as amended, we are eligible to receive up to $100 million in additional milestone payments, 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 $8.0 million payment received in the fourth quarter of 2014 was deferred and is being recognized as development work is performed, through December 2017. The $5.4 million payment received in the first quarter of 2014 and the $3.0 million initial payment received in 2011 were also deferred and are being recognized over the estimated remaining period of performance of development work, which is approximately 33 months.

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

	Three Months Ended March 31,	
	2015	2014
Initial payment	$63	$180
Subsequent payment	237	675
Performance of research activities	171	887
Total	$471	$1,742

As of March 31, 2015 and December 31, 2014, total deferred revenue from the initial payment, subsequent payment and development funding payments was $12.3 million and $12.8 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 periods ended March 31, 2015 and 2014 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.
- 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.

The following table summarizes the revenues recognized under the various arrangements with the NIH and NIAID (in thousands):

	Three Months Ended March 31,	
	2015	2014
NIAID contracts	$-	$874
All other NIH contracts	148	251
Total grant revenue	$148	$1,125

6. Long-Term Debt

In December 2014, we entered into a Loan and Security Agreement ("Loan Agreement") with Hercules Technology Growth Capital, Inc. ("Hercules") under which we may borrow up to $40.0 million in two tranches.

We drew down the first tranche of $10.0 million upon closing of the transaction on December 23, 2014. The second tranche, of $30.0 million, can be drawn at our option any time prior to September 30, 2015, but only if we have achieved certain milestones relating to the ongoing HEPLISAV–B Phase 3 study ("Milestone A"). We plan to use the proceeds received under the Loan Agreement to provide additional funding for HEPLISAV–B development and pre-commercialization activities, as a potential source of funding for clinical trials for our cancer immunotherapeutic product candidate, SD-101, and for general corporate purposes.

The interest rate for each tranche in the Loan Agreement is calculated at a rate equal to the greater of either: (i) 9.75% plus the prime rate as reported from time to time in The Wall Street Journal minus 5.25%, and (ii) 9.75%. Payments under the Loan Agreement

are interest only until February 1, 2016 (which will be extended until August 1, 2016, if we achieve Milestone A on or before September 30, 2015, and which will be extended until February 1, 2017, if we meet certain additional HEPLISAV-B Phase 3 related milestones ("Milestone B") on or before August 1, 2016). The interest only period will be followed by equal monthly payments of principal and interest amortized over a 30 month schedule through the scheduled maturity date on July 1, 2018 (which would be extended through January 1, 2019 if we achieve Milestone A on or before September 30, 2015 or Milestone B on or before August 1, 2016) (the "Loan Maturity Date"). The entire principal balance, including a balloon payment of principal, as applicable, will be due and payable on the Loan Maturity Date, which we recorded as a liability and debt discount at the origination of the loan.

A final payment equal to $840,000 (if an aggregate of $10.0 million is advanced under the Loan Agreement) or $2,400,000 (if an aggregate of $40.0 million is advanced under the Loan Agreement) will be due on the Loan Maturity Date, or such earlier date specified in the Loan Agreement. Our obligations under the Loan Agreement are secured by a security interest in substantially all of our assets, other than our intellectual property. Additionally, we paid a $400,000 facility charge to Hercules. The debt issuance costs and final payment fee are being amortized and accreted, respectively, to interest expense over the term of the term loan using the effective interest method.

In addition, Hercules was granted the right, at its discretion, to participate in any Subsequent Financing in an aggregate amount of up to $1,500,000 (that is, a maximum amount of $1,500,000 with respect to all subsequent financings collectively) on the same terms, conditions and pricing afforded to others participating in any such Subsequent Financing.

The Loan Agreement includes customary affirmative and restrictive covenants, but does not include any financial maintenance covenants, and also includes standard events of default. At March 31, 2015, we were in compliance with all loan covenants. Upon an event of default, including a change of control, Hercules has the option to accelerate repayment of the loan, including payment of any applicable prepayment charges, which is 1.50% of the outstanding loan balance and accrued but unpaid interest.

As of March 31, 2015 and December 31, 2014, we had outstanding borrowings under the Loan Agreement of $10.0 million, with a carrying value of $9.5 million and $9.6 million, respectively, net of the debt discounts. The following table summarizes our outstanding future minimum payments associated with our long-term debt as of March 31, 2015 (in thousands):

Obligations:	Total	2015	2016-2017	2018-2019	2020 and Thereafter
Principal payments on long-term debt	$10,000	$-	$ 7,425	$ 2,575	$ -
Interest payments on long-term debt	2,159	745	1,328	86	-
Total	$12,159	$745	$ 8,753	$ 2,661	$ -

7. 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, Series B Convertible Preferred Stock, and warrants 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. Stock options, Series B Convertible Preferred Stock, warrants and stock awards totaling approximately 5,310,000 and 7,780,000 shares of common stock as of March 31, 2015 and 2014, respectively, were excluded from the calculation of diluted net loss per share for the three months ended March 31, 2015 and 2014, 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 three months ended March 31, 2015 and 2014, basic and diluted loss per share are the same.

8. Stockholders' Equity

Option activity under our stock-based compensation plans during the three months ended March 31, 2015 was as follows (in thousands except per share amounts):

	Shares Underlying Outstanding Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(years)	(in thousands)
Balance at December 31, 2014	1,820	$ 27.48		
Options granted	619	16.30		
Options exercised	(2)	10.22		
Options cancelled:				
Options forfeited (unvested)	(54)	17.88		
Options cancelled (vested)	(70)	48.75		
Balance at March 31, 2015	2,313	24.06	6.94	$ 8,276
Vested and expected to vest at March 31, 2015	2,313	24.06	6.94	$ 8,276
Exercisable at March 31, 2015	1,126	30.20	4.55	$ 2,298

Restricted stock unit activity under our stock-based compensation plans during the three months ended March 31, 2015 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, 2014	179	$ 17.13
Granted	24	$ 16.16
Vested	(3)	$ 16.90
Forfeited or expired	(5)	$ 18.80
Non-vested as of March 31, 2015	195	